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April 15, 2004

Chairman Marc Spitzer
Commissioner Bill Mundell
Commissioner Jeff Hatch-Miller
Commissioner Kris Mayes
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

Re: APS Rate Case: Docket No. E-01345A-03-0437

Dear Colleagues:

Ernest Johnson's April 8 memorandum notified us that APS has approached Staff regarding possible settlement negotiations in the APS rate case.

On several occasions, I have stated that settlement can be an effective tool. Settlement reduces expenses, expedites the decision-making process and brings a mutually-agreeable compromise before the Commissioners. With that said, I must express my trepidation for successful settlement discussions in this particular matter.

This is a complex docket with far reaching implications for APS, the ratepayers and the wholesale generation market. APS, Staff and 28 Intervenors have submitted volumes of testimony. Within the testimony, each party has presented its respective policy positions regarding the several issues involved in the rate case. All parties should be represented at the negotiating table. With so many parties presenting divergent positions on numerous issues, settlement negotiations are a Herculean task.

Apart from the difficulty in reaching a settlement, I ask you to consider whether settlement is appropriate. The Commission should consider whether the benefits of a settlement outweigh the benefits of a complete evidentiary record. The last fully litigated APS rate case was in 1991.

Many important policy considerations are embedded in this Application. Making these policy decisions will drive the results of this case. It is the Commission – not the parties negotiating a settlement behind closed doors – that must steer the course and set the policy. APS serves one of the fastest growing areas of the country. This Commission must decide how APS will meet this challenge. APS witness Steve Wheeler articulated a key policy consideration of this case.

"APS believes that a vertically-integrated utility, with an appropriate mix of utility-owned generation, long-term contracts with credit-worthy entities, and shorter term market purchases, each of which is reflected in rates on a cost-of-service basis, provides the best combination of reliability, flexibility and price stability for customers. Others, clearly opposed to a more vertically-integrated APS, effectively urge the Commission to return to its original path of restructuring based on wholesale market reliance, albeit perhaps at a slower, more incremental basis. This is a critical policy decision for this Commission, one which will affect the Company, its customers and Arizona for years to come." (Wheeler Rebuttal Testimony at p. 8)

Although I have not come to a decision on this matter, I wish to share my thoughts with you. I look forward to discussing this at an upcoming procedural conference.

Sincerely,

A handwritten signature in cursive script, appearing to read "Mike".

Mike Gleason
Commissioner

c: Parties to the docket